

STATE OF HAWAII — DEPARTMENT OF TAXATION
Instructions For Form N-168
Farm Income Averaging

GENERAL INSTRUCTIONS

Use Form N-168 to elect to figure your 2002 tax by averaging, over the previous 3 years (base years), all or part of your 2002 taxable income from your trade or business of farming. Making this election may give you a lower tax if your 2002 income from farming is high and your taxable income for one or more of the 3 prior years was low.

You may need copies of your original or amended Forms N-11, N-12, or N-15 that you filed for 1999, 2000, and 2001 to figure your tax on Form N-168. If you do not have copies of those returns, you can get them by filing Form L-72, Request for Copies of Income Tax Return. Form L-72 may be obtained from any district tax office, by fax or mail, or via the Internet at:

www.state.hi.us/tax

You do not have to recompute, because of this election, the tax liability of any minor child who was required to use your tax rates in the prior years.

NEGATIVE TAXABLE INCOME

If your deductions exceeded your gross income for any year that is a base year for 2002 (1999, 2000, or 2001), your taxable income for farm income averaging purposes for that year may be a negative amount. See the instructions for lines 5, 9, and 13.

If you had taxable income from farming in 1999 and your deductions exceeded your gross income for any of the 3 years preceding 1999 (base years), your taxable income for farm income averaging purposes for a base year may be a negative amount. You can use that negative amount instead of limiting the amount to zero when figuring your tax using Form N-168 for 1999. Filing an amended return may result in a refund.

You may file an amended return for 1999 and use Form N-168 to figure your tax even if you did not use Form N-168 on your original 1999 tax return.

If you did use Form N-168 to figure your tax for 1999 and the taxable income for any of the base years was zero, you **must** refigure your tax using a 1999 Form N-168 **before** completing Form N-168 for 2002. You also should amend your 1999 tax return.

Figure the amount to enter on lines 5, 9, and 13 of a 1999 Form N-168 in the manner shown for those lines in these instructions, but substituting the applicable base years. Also, do not limit the amount on lines 5, 9, 11, 13, and 15 to zero.

SPECIFIC INSTRUCTIONS

Line 2 — To figure **elected farm income**, first figure your taxable income from farming. **Taxable income from farming** includes all income, gains, losses, and deductions attributable to any farming business. However, it does not include gain from the sale or other disposition of land. Generally, farm income, gains, losses, and deductions are reported on:

- Form N-11, N-12, or N-15, to the extent of wages and other compensation you received as a shareholder in an S corporation engaged in a farming business;
- Capital Gain/Loss Worksheet in the Form N-11/N-12 or Form N-15 instruction booklet;
- Federal Schedule E, Part II;
- Federal Schedule F;
- Schedule D-1; and

- Federal Form 4835.

Your **elected farm income** is the amount of your taxable income from farming that you elect to include on line 2. You do not have to include all of your taxable income from farming on line 2. It may be to your advantage to include less than the full amount, depending on how the amount you include on line 2 affects your tax bracket for the current and prior 3 tax years.

Your elected farm income cannot exceed your taxable income. Also, the portion of your elected farm income treated as a net capital gain cannot exceed the **smaller** of your total net capital gain or your net capital gain attributable to your farming business. If your elected farm income includes net capital gain, you must allocate an equal portion of the net capital gain to each of the base years. If, for any base year, you had a capital loss that resulted in a capital loss carryover to the next tax year, **do not** reduce the elected farm income allocated to that base year by any part of the carryover.

Farming Business. A farming business is the trade or business of cultivating land or raising or harvesting any agricultural or horticultural commodity. This includes:

- Operating a nursery or sod farm;
- Raising or harvesting of trees bearing fruits, nuts, or other crops;
- Raising ornamental trees (but not evergreen trees that are more than 6 years old when severed from the roots); and
- Raising, shearing, feeding, caring for, training, and managing animals; and
- Leasing land to a tenant engaged in a farming business, but **only** if the lease payments are based on a share of the tenant's production (not a fixed amount).

A farming business **does not** include:

- Contract harvesting of an agricultural or horticultural commodity grown or raised by someone else or
- Merely buying or reselling plants or animals grown or raised by someone else.

Line 4 — Figure the tax on the amount on line 3 using the 2002 Tax Table, Tax Rate Schedules, or Capital Gains Tax Worksheet from your 2002 Form N-11/N-12 or Form N-15 instruction booklet. Enter the tax on line 4.

Line 5 — Before completing this line, be sure to see **Negative Taxable Income** on this page.

If you used Form N-168 to figure your tax for 2001 (that is, you entered the amount from line 22 of that Form N-168 on Form N-11, line 26; Form N-12, line 39; or Form N-15, line 41), enter on line 5 the amount from line 11 of your 2001 Form N-168. If you used Form N-168 to figure your tax for 2000 but not 2001, enter on line 5 the amount from line 15 of your 2000 Form N-168. If you used Form N-168 to figure your tax for 1999 but not 2000 or 2001, enter on line 5 the amount from line 3 of your 1999 Form N-168.

If you figured your tax for 1999, 2000, and 2001 without using Form N-168, enter on line 5 the taxable income from your 1999 return (or as previously adjusted by the State Department of Taxation, an amended return, etc.). But if the taxable income on your 1999 tax return is zero or less, complete the worksheet in the instructions to federal Schedule J to figure the amount to enter on line 5.

If you did not file a tax return for 1999, use the amount you would have reported as your taxable income had you been required to file a tax return.

Line 8 — If line 7 is zero, enter zero on line 8. Otherwise, figure the tax on the amount on line 7 using either the 1999 Tax Rate Schedules or the Tax on Capital Gains Worksheet on page 3 of the instructions.

Line 9 — Before completing this line, be sure to see **Negative Taxable Income** on page 1.

If you used Form N-168 to figure your tax for 2001 (that is, you entered the amount from line 22 of that Form N-168 on Form N-11, line 26; Form N-12, line 39; or Form N-15, line 41), enter on line 9 the amount from line 15 of your 2001 Form N-168. If you used Form N-168 to figure your tax for 2000 but not 2001, enter on line 9 the amount from line 3 of your 2000 Form N-168.

If you figured your tax for both 2000 and 2001 without using Form N-168, enter on line 9 the taxable income from your 2000 return (or as previously adjusted by the State Department of Taxation, an amended return, etc.). But if the taxable income on your 2000 tax return is zero or less, complete the worksheet in the instructions to federal Schedule J to figure the amount to enter on line 9.

If you did not file a tax return for 2000, use the amount you would have reported as your taxable income had you been required to file a tax return.

Line 12 — If line 11 is zero or less, enter zero on line 12. Otherwise, figure the tax on the amount on line 11 using either the 2000 Tax Rate Schedules or the Tax on Capital Gains Worksheet on page 3 of the instructions.

Line 13 — Before completing this line, be sure to see **Negative Taxable Income** on page 1.

If you used Form N-168 to figure your tax for 2001 (that is, you entered the amount from line 22 of that Form N-168 on Form N-11, line 26; Form N-12, line 39; or Form N-15, line 41), enter on line 13 the amount from line 3 of that Form N-168.

If you did not use Form N-168 to figure your tax for 2001, enter on line 13 the taxable income from your 2001 return (or as previously adjusted by the State Department of Taxation, an amended return, etc.). But if the taxable income on your 2001 tax return is zero or less, complete the worksheet in the instructions to federal Schedule J to figure the amount to enter on line 13.

If you did not file a tax return for 2001, use the amount you would have reported as your taxable income had you been required to file a tax return.

Line 16 — If line 15 is zero or less, enter zero on line 16. Otherwise, figure the tax on the amount on line 15 using either the 2001 Tax Rate Schedules or the Tax on Capital Gains Worksheet on page 4 of the instructions.

Lines 18, 19, and 20 — If you used Form N-168 to figure your tax for 2001, enter the amount from the appropriate lines of that Form N-168 on lines 18, 19, and 20. If you used Form N-168 to figure your tax for 2000 but not 2001, enter the amount from the appropriate lines of your 2000 Form N-168 on lines 18 and 19. If you used Form N-168 for 1999 but not 2000 or 2001, enter the amount from line 4 of your 1999 Form N-168 on line 18. Otherwise, enter your tax for the applicable year. If you amended your return or the State Department of Taxation made changes to it, enter the corrected amount. Do not include any amount from Forms N-2, N-103, N-152, N-312, N-318, N-405, N-586, or N-814.

Tax Rate Schedules for Years 1999 - 2000

Schedule I - Use if your filing status is Single or Married filing separately

If your taxable income is:	Your tax is:
Not over \$2,000.....	1.6% of taxable income
Over \$2,000 but not over \$4,000	\$ 32.00 plus 3.9% over \$2,000
Over \$4,000 but not over \$8,000	\$ 110.00 plus 6.8% over \$4,000
Over \$8,000 but not over \$12,000	\$ 382.00 plus 7.2% over \$8,000
Over \$12,000 but not over \$16,000	\$ 670.00 plus 7.5% over \$12,000
Over \$16,000 but not over \$20,000	\$ 970.00 plus 7.8% over \$16,000
Over \$20,000 but not over \$30,000	\$ 1,282.00 plus 8.2% over \$20,000
Over \$30,000 but not over \$40,000	\$ 2,102.00 plus 8.5% over \$30,000
Over \$40,000	\$ 2,952.00 plus 8.75% over \$40,000

Schedule II - Use if your filing status is Married filing jointly or Qualifying Widow(er)

If your taxable income is:	Your tax is:
Not over \$4,000.....	1.6% of taxable income
Over \$4,000 but not over \$8,000	\$ 64.00 plus 3.9% over \$4,000
Over \$8,000 but not over \$16,000	\$ 220.00 plus 6.8% over \$8,000
Over \$16,000 but not over \$24,000	\$ 764.00 plus 7.2% over \$16,000
Over \$24,000 but not over \$32,000	\$ 1,340.00 plus 7.5% over \$24,000
Over \$32,000 but not over \$40,000	\$ 1,940.00 plus 7.8% over \$32,000
Over \$40,000 but not over \$60,000	\$ 2,564.00 plus 8.2% over \$40,000
Over \$60,000 but not over \$80,000	\$ 4,204.00 plus 8.5% over \$60,000
Over \$80,000	\$ 5,904.00 plus 8.75% over \$80,000

Schedule III - Use if your filing status is Head of Household

If your taxable income is:	Your tax is:
Not over \$3,000.....	1.6% of taxable income
Over \$3,000 but not over \$6,000	\$ 48.00 plus 3.9% over \$3,000
Over \$6,000 but not over \$12,000	\$ 165.00 plus 6.8% over \$6,000
Over \$12,000 but not over \$18,000	\$ 573.00 plus 7.2% over \$12,000
Over \$18,000 but not over \$24,000	\$ 1,005.00 plus 7.5% over \$18,000
Over \$24,000 but not over \$30,000	\$ 1,445.00 plus 7.8% over \$24,000
Over \$30,000 but not over \$45,000	\$ 1,923.00 plus 8.2% over \$30,000
Over \$45,000 but not over \$60,000	\$ 3,153.00 plus 8.5% over \$45,000
Over \$60,000	\$ 4,428.00 plus 8.75% over \$60,000

Tax on Capital Gains Worksheet for Years 1999 - 2000

1. Enter your taxable income.....
2. Enter your net long-term capital gain (Form 1040 or Schedule D) (as refigured)
3. Combine your Hawaii long-term adjustments, if any, and enter the total here (as refigured)
4. Combine lines 2 and 3. This is your Hawaii net long-term capital gain
5. Enter your net capital gain (Form 1040 or Schedule D) (as refigured)
6. Combine your Hawaii short-term adjustments, if any, and enter the total here (as refigured)
7. Combine lines 3, 5, and 6. This is your Hawaii net capital gain
8. Enter the **smaller** of line 4 or line 7
9. If you filed Form N-158, enter the amount from line 4e of Form N-158.....
10. Line 8 minus line 9. If this amount is zero or less, **stop here**; you **cannot** use this worksheet to figure your tax. Instead, use the Tax Rate Schedules shown above.....
11. Line 1 minus line 10
12. Enter the amount shown below for the filing status you claimed.....

Single or Married filing separately—	\$12,000
Married filing jointly or Qualifying widow(er)—	24,000
Head of household—	18,000
13. Enter the **greater** of line 11 or line 12.....
14. Line 1 minus line 13. This is the amount of net capital gains eligible for alternative tax.
15. Compute the tax on the amount on line 13 using the Tax Rate Schedules shown above.
16. Multiply line 14 by 7.25% (.0725) and enter the result.....
17. Line 15 plus line 16
18. Figure the tax on the amount on line 1. Use the Tax Rate Schedules shown above.....
19. **Tax.** Enter the **smaller** of line 17 or 18 here and on the appropriate line of Form N-168

Note: If you filed Form N-15 for 1999 or 2000, the computation to figure taxable income uses Hawaii income and deduction amounts from Column B. Therefore, the Tax on Capital Gains Worksheet for 1999 and 2000 should be completed using amounts from Column B of your 1999 and 2000 Form N-15.

Tax Rate Schedules for Year 2001**Schedule I - Use if your filing status is Single or Married filing separately**

If your taxable income is:	Your tax is:
Not over \$2,000.....	1.5% of taxable income
Over \$2,000 but not over \$4,000	\$ 30.00 plus 3.7% over \$2,000
Over \$4,000 but not over \$8,000	\$ 104.00 plus 6.4% over \$4,000
Over \$8,000 but not over \$12,000	\$ 360.00 plus 6.9% over \$8,000
Over \$12,000 but not over \$16,000	\$ 636.00 plus 7.3% over \$12,000
Over \$16,000 but not over \$20,000	\$ 928.00 plus 7.6% over \$16,000
Over \$20,000 but not over \$30,000	\$ 1,232.00 plus 7.9% over \$20,000
Over \$30,000 but not over \$40,000	\$ 2,022.00 plus 8.2% over \$30,000
Over \$40,000	\$ 2,842.00 plus 8.5% over \$40,000

Schedule II - Use if your filing status is Married filing jointly or Qualifying Widow(er)

If your taxable income is:	Your tax is:
Not over \$4,000.....	1.5% of taxable income
Over \$4,000 but not over \$8,000	\$ 60.00 plus 3.7% over \$4,000
Over \$8,000 but not over \$16,000	\$ 208.00 plus 6.4% over \$8,000
Over \$16,000 but not over \$24,000	\$ 720.00 plus 6.9% over \$16,000
Over \$24,000 but not over \$32,000	\$ 1,272.00 plus 7.3% over \$24,000
Over \$32,000 but not over \$40,000	\$ 1,856.00 plus 7.6% over \$32,000
Over \$40,000 but not over \$60,000	\$ 2,464.00 plus 7.9% over \$40,000
Over \$60,000 but not over \$80,000	\$ 4,044.00 plus 8.2% over \$60,000
Over \$80,000	\$ 5,684.00 plus 8.5% over \$80,000

Schedule III - Use if your filing status is Head of Household

If your taxable income is:	Your tax is:
Not over \$3,000.....	1.5% of taxable income
Over \$3,000 but not over \$6,000	\$ 45.00 plus 3.7% over \$3,000
Over \$6,000 but not over \$12,000	\$ 156.00 plus 6.4% over \$6,000
Over \$12,000 but not over \$18,000	\$ 540.00 plus 6.9% over \$12,000
Over \$18,000 but not over \$24,000	\$ 954.00 plus 7.3% over \$18,000
Over \$24,000 but not over \$30,000	\$ 1,392.00 plus 7.6% over \$24,000
Over \$30,000 but not over \$45,000	\$ 1,848.00 plus 7.9% over \$30,000
Over \$45,000 but not over \$60,000	\$ 3,033.00 plus 8.2% over \$45,000
Over \$60,000	\$ 4,263.00 plus 8.5% over \$60,000

Tax on Capital Gains Worksheet for Year 2001

1. Enter your taxable income.....
2. Enter your net long-term capital gain (Form 1040 or Schedule D) (as refigured)
3. Combine your Hawaii long-term adjustments, if any, and enter the total here (as refigured)
4. Combine lines 2 and 3. This is your Hawaii net long-term capital gain
5. Enter your net capital gain (Form 1040 or Schedule D) (as refigured)
6. Combine your Hawaii short-term adjustments, if any, and enter the total here (as refigured)
7. Combine lines 3, 5, and 6. This is your Hawaii net capital gain
8. Enter the **smaller** of line 4 or line 7
9. If you filed Form N-158, enter the amount from line 4e of Form N-158.....
10. Line 8 minus line 9. If this amount is zero or less, **stop here; you cannot** use this worksheet to figure your tax. Instead, use the Tax Rate Schedules shown above.....
11. Line 1 minus line 10
12. Enter the amount shown below for the filing status you claimed.....

Single or Married filing separately—	\$12,000
Married filing jointly or Qualifying widow(er)—	24,000
Head of household—	18,000
13. Enter the **greater** of line 11 or line 12.....
14. Line 1 minus line 13. This is the amount of net capital gains eligible for alternative tax.
15. Compute the tax on the amount on line 13 using the Tax Rate Schedules shown above.
16. Multiply line 14 by 7.25% (.0725) and enter the result.....
17. Line 15 plus line 16
18. Figure the tax on the amount on line 1. Use the Tax Rate Schedules shown above.....
19. **Tax.** Enter the **smaller** of line 17 or 18 here and on the appropriate line of Form N-168

Note: If you filed Form N-15 for 2001, the computation to figure taxable income uses Hawaii income and deduction amounts from Column B. Therefore, the Tax on Capital Gains Worksheet for 2001 should be completed using amounts from Column B of your 2001 Form N-15.